



FOR CLERK USE ONLY

City Council

Item No. _____

CITY COUNCIL AGENDA FACT SHEET

Finance

Department

August 4, 2009

Requested Date

1. **Request:**

Council Approval

☒

Information Only/
Presentation

☐

Other (specify)

☐

Hearing

☐

2. **Requested Action:**

Authorize the City Manager to execute the agreement with The Epler Company, Benefits & Compensation Consulting and Actuarial Service Consultants, to provide services in connection with the GASB 45 required implementation for OPEBs.

3. **Fiscal Impact:**

Revenue:

Increase

☐

Source:

Decrease

☐

Amount:

Cost:

Increase

☒

Source:

601-53030-1182

Decrease

☐

Amount:

\$7,500

Does Not Apply ☐

4. **Reviewed By:**

Finance Dept. on 7/27/2009

Comments: _____

By: [Signature]

City Attorney on _____

Comments: _____

By: _____

Note: Back up must be submitted along with this form. Deadline is 5:00 p.m., 2 Fridays before the scheduled meeting date.

CLERK USE ONLY:

CITY COUNCIL DATE:

Action

☐

Filing

☐

Consent

☐

Presentation

☐

Hearing

☐

Other(specify)

☐

Reviewed by: City Clerk _____

Date _____

City Manager _____

Date _____

CITY COUNCIL AGENDA REPORT

SUBJECT: The Epler Company, Benefits & Compensation Consultant and Actuary Services

AGENDA DATE: August 4, 2009

PREPARED BY: Judy Hashem, Finance Director

APPROVED FOR AGENDA BY: Victor M. Carrillo, City Manager

RECOMMENDATION: City Council is requested to take the following action:

- 1. Authorize the City Manager to execute the agreement with The Epler Company, Benefits & Compensation Consulting and Actuarial Service Consultants, to provide services in connection with the GASB 45 required implementation for OPEBs.**

FISCAL IMPACT: The fee to update the actuarial valuation for the City's retiree health benefits program will not exceed \$7,500 and will be paid from the City's Medical Insurance Fund #601.

BACKGROUND INFORMATION:

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 in June 2004 pertaining to accounting and financial reporting of Other Postemployment Benefits (OPEB). Postemployment benefits constitute compensation for employee services after employment has ended.

For financial reporting purposes, GASB 45 requires an actuarial valuation be performed biennially for OPEB plans that have a total membership (active and terminated) of 200. A. J. Gaddis, former Human Resources Director, contracted with The Epler Company in 2006 for the first actuarial valuation (copy attached) dated April 2007.

The purpose of the actuarial valuation is to determine the annual required contribution (ARC) to report in the City's financial statements. Typically public agencies, including the City of Callexico, had reflected the cost of retiree health care on a "pay-as-you-go" basis (paying the expense as it occurred). With implementation of GASB 45, the liability for the promise of a future benefit must be reported on City financials. GASB does not require that OPEB plans be funded, but it requires disclosure of the OPEB obligation in the financial statements.

To comply with GASB, the City is required to calculate and record, as of Fiscal Year 2008-09, the ARC “Annual Required Contribution”. The ARC is the sum of the services received during the fiscal year and the liability for the cost of the past, unfunded years of service. The City is not required to fund the future costs, however, the City is required to determine the unfunded accrued liability and estimated annual expense (required contribution).

DOCUMENTS ATTACHED:

- 1. Agreement for Professional Services**
- 2. 2006 Actuarial Valuation**

Agenda Item No. ____

Page ____ Of ____

AGREEMENT FOR PROFESSIONAL SERVICES

This Agreement is made and entered into as of the 4th day of August, 2009, by and between the City of Calxico ("City") and The Epler Company, ("Consultant").

RECITALS

A. Consultant is specially trained, experienced and competent to perform the special services which will be required by this Agreement; and

B. Consultant possesses the skill, experience, ability, background, certification and knowledge to provide the services described in this Agreement on the terms and conditions described herein.

AGREEMENT

1. Scope of Services. The Consultant shall furnish the following services in a professional manner. Consultant shall perform the services described on Exhibit A which is attached hereto and incorporated herein by reference. Consultant shall provide said services at the time, place, and in the manner specified in Exhibit A, subject to the direction of the City through its staff that it may provide from time to time.

2. Time of Performance. The services of Consultant are to commence upon execution of this Agreement and shall continue until all authorized work is approved by the City. All such work shall be completed no later than _____. Time is of the essence for every provision of this agreement that states a time for performance and for every deadline imposed by the City.

3. Compensation. Compensation to be paid to Consultant shall be in accordance with the Schedule of Charges set forth in Exhibit B, which is attached hereto and incorporated herein by reference. In no event shall Consultant's compensation exceed \$7,500 without additional authorization from the City. Payment by City under this Agreement shall not be deemed a waiver of defects, even if such defects were known to the City at the time of payment.

4. Method of Payment. Consultant shall submit monthly billings to City describing the work performed during the preceding month. Consultant's bills shall include a brief description of the services performed, the date the services were performed, the number of hours spent and by whom, and a description of any reimbursable expenditures. City shall pay Consultant no later than 30 days after approval of the monthly invoice by City staff. When payments made by City equal 90% of the maximum fee provided for in this Agreement, no further payments shall be made until the final work under this Agreement has been accepted by City.

5. Ownership of Documents. All plans, studies, documents and other writings prepared by and for Consultant, its officers, employees and agents and subcontractors in the course of implementing this Agreement, except working notes and internal documents, shall become the property of the City upon payment to Consultant for such work, and the City shall have the sole right to use such materials in its discretion without further compensation to Consultant or to any other party. Consultant shall, at Consultant's expense, provide such reports, plans, studies, documents and other writings to City upon written request.

6 Independent Contractor. It is understood that Consultant, in the performance of the work and services agreed to be performed, shall act as and be an independent contractor and shall not act as an agent or employee of the City. Consultant shall obtain no rights to retirement benefits or other benefits which accrue to City's employees, and Consultant hereby expressly waives any claim it may have to any such rights.

7. Interest of Consultant. Consultant (including principals, associates and professional employees) covenants and represents that it does not now have any investment or interest in real property and shall not acquire any interest, direct or indirect, in the area covered by and during this Agreement or any other source of income, interest in real property or investment which would be affected in any manner or degree by the performance of Consultant's services hereunder. Consultant further covenants and represents that in the performance of its duties hereunder no person having any such interest shall perform any services under this Agreement.

Consultant is not a designated employee within the meaning of the Political Reform Act because Consultant:

- a. will conduct research and arrive at conclusions with respect to his/her rendition of information, advice, recommendation or counsel independent of the control and direction of the City or of any City official, other than normal agreement monitoring; and
- b. possesses no authority with respect to any City decision beyond rendition of information, advice, recommendation or counsel. (FPPC Reg. 18700(a)(2).)

8. Professional Ability of Consultant. City has relied upon the professional training and ability of Consultant to perform the services hereunder as a material inducement to enter into this Agreement. Consultant shall therefore provide properly skilled professional and technical personnel to perform all services under this Agreement. All work performed by Consultant under this Agreement shall be in accordance with applicable legal requirements and shall meet the standard of quality ordinarily to be expected of competent professionals in Consultant's field of expertise.

9. Indemnity. Consultant agrees to defend, indemnify and hold harmless the City, its officers, agents, employees and volunteers from and against any and all claims, demands, actions, losses, damages, injuries, and liability, direct or indirect (including any and all related costs and expenses in connection therein), arising out of the performance of this Agreement,

except for any such claim arising out of the sole negligence or willful misconduct of the City, its officers, agents, employees or volunteers.

10. Insurance Requirements.

a. Consultant, at Consultant's own cost and expense, shall procure and maintain, for the duration of the contract, the following insurance policies.

i. Workers' Compensation Coverage. Consultant shall maintain Workers' Compensation Insurance and Employer's Liability Insurance for his/her employees in accordance with the laws of the State of California. In addition, Consultant shall require each subcontractor to similarly maintain Workers' Compensation Insurance and Employer's Liability Insurance in accordance with the laws of the State of California for all of the subcontractor's employees. Any notice of cancellation or non-renewal of all Workers' Compensation policies must be received by the City at least thirty (30) days prior to such change. The insurer shall agree to waive all rights of subrogation against City, its officers, agents, employees and volunteers for losses arising from work performed by Consultant for City. This provision shall not apply if Consultant has no employees performing work under this Agreement. If the Consultant has no employees for the purposes of this Agreement, Consultant shall sign the "Certificate of Exemption from Workers' Compensation Insurance" which is attached hereto as Exhibit C.

ii. General Liability Coverage. Consultant shall maintain commercial general liability insurance in an amount not less than one million dollars (\$1,000,000) per occurrence for bodily injury, personal injury and property damage. If a commercial general liability insurance form or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to the work to be performed under this Agreement or the general aggregate limit shall be at least twice the required occurrence limit.

iii. Automobile Liability Coverage. Consultant shall maintain automobile liability insurance covering bodily injury and property damage for all activities of the Consultant arising out of or in connection with the work to be performed under this Agreement, including coverage for owned, hired and non-owned vehicles, in an amount of not less than one million dollars (\$1,000,000) combined single limit for each occurrence.

b. Policy Endorsements. Each general liability and automobile liability insurance policy shall be with insurers possessing a Best's rating of no less than A:VII and shall be endorsed with the following specific language:

i. The City of Calexico, its elected or appointed officers, officials, employees, agents and volunteers are to be covered as additional insureds with respect to liability arising out of work performed by or on behalf of the Consultant, including materials, parts or equipment furnished in connection with such work or operations.

ii. This policy shall be considered primary insurance as respects the City, its elected or appointed officers, officials, employees, agents and volunteers. Any insurance maintained by the City, including any self-insured retention the City may have, shall be considered excess insurance only and shall not contribute with it.

iii. This insurance shall act for each insured and additional insured as though a separate policy had been written for each, except with respect to the limits of liability of the insuring company.

iv. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the City, its elected or appointed officers, officials, employees, agents or volunteers.

v. The insurance provided by this policy shall not be suspended, voided, canceled, or reduced in coverage or in limits except after thirty (30) days written notice has been received by the City.

c. Deductibles and Self-Insured Retentions. Any deductibles or self-insured retentions must be declared to and approved by the City. At the City's option, Consultant shall demonstrate financial capability for payment of such deductibles or self-insured retentions.

d. Certificates of Insurance and Endorsements. Consultant shall provide certificates of insurance with original endorsements to City as evidence of the insurance coverage required herein. Certificates of such insurance shall be filed with the City on or before commencement of performance of this Agreement. Current certification of insurance shall be kept on file with the City at all times during the term of this Agreement.

11. Compliance with Laws. Consultant shall use the standard of care in its profession to comply with all applicable federal, state and local laws, codes, ordinances and regulations.

12. Licenses. Consultant represents and warrants to City that it has all licenses, permits, qualifications, insurance and approvals of whatsoever nature which are legally required of Consultant to practice its profession. Consultant represents and warrants to City that Consultant shall, at its sole cost and expense, keep in effect or obtain at all times during the term of this Agreement, any licenses, permits, insurance and approvals which are legally required of Consultant to practice its profession.

13. **Controlling Law Venue.** This Agreement and all matters relating to it shall be governed by the laws of the State of California and any action brought relating to this Agreement shall be held exclusively in a state court in the County of Imperial, California.

14. Written Notification. Any notice, demand, request, consent, approval or communication that either party desires or is required to give to the other party shall be in writing and either served personally or sent prepaid, first class mail. Any such notice, demand, etc. shall be addressed to the other party at the address set forth herein below. Either party may change its address by notifying the other party of the change of address. Notice shall be deemed communicated within 48 hours from the time of mailing if mailed as provided in this section.

If to City: City of Calexico, City Manager
608 Heber Ave.
Calexico, CA 92231

If to Consultant:

15. **Consultant's Books and Records.**

a. Consultant shall maintain any and all ledgers, books of account, invoices, vouchers, canceled checks, and other records or documents evidencing or relating to charges for services, or expenditures and disbursements charged to City for a minimum period of three (3) years, or for any longer period required by law, from the date of final payment to Consultant to this Agreement.

b. Consultant shall maintain all documents and records which demonstrate performance under this Agreement for a minimum period of three (3) years, or for any longer period required by law, from the date of termination or completion of this Agreement.

c. Any records or documents required to be maintained pursuant to this Agreement shall be made available for inspection or audit, at any time during regular business hours, upon written request by the City Manager, City Attorney, City Auditor or a designated representative of these officers. Copies of such documents shall be provided to the City for inspection at City Hall when it is practical to do so. Otherwise, unless an alternative is mutually agreed upon, the records shall be available at Consultant's address indicated for receipt of notices in this Agreement.

d. Where City has reason to believe that such records or documents may be lost or discarded due to dissolution, disbandment or termination of Consultant's business, City may, by written request by any of the above named officers, require that custody of the records be given to the City and that the records and documents be maintained in City

Hall. Access to such records and documents shall be granted to any party authorized by Consultant, Consultant's representatives, or Consultant's successor-in-interest.

16. Entire Agreement. This Agreement constitutes the complete and exclusive statement of Agreement between the City and Consultant. All prior written and oral communications, including correspondence, drafts, memoranda, and representations, are superseded in total by this Agreement.

17. Amendments. This Agreement may be modified or amended only by a written document executed by both Consultant and City and approved as to form by the City Attorney.

18. Waiver. No failure on the part of either party to exercise any right or remedy hereunder shall operate as a waiver of any other right or remedy that party may have hereunder.

19. Execution. This Agreement may be executed in several counterparts, each of which shall constitute one and the same instrument and shall become binding upon the parties when at least one copy hereof shall have been signed by both parties hereto. In approving this Agreement, it shall not be necessary to produce or account for more than one such counterpart.

20. Assignment and Subcontracting. The parties recognize that a substantial inducement to City for entering into this Agreement is the professional reputation, experience and competence of Consultant. Assignments of any or all rights, duties or obligations of the Consultant under this Agreement will be permitted only with the express consent of the City. Consultant shall not subcontract any portion of the work to be performed under this Agreement without the written authorization of the City. If City consents to such subcontract, Consultant shall be fully responsible to City for all acts or omissions of the subcontractor. Nothing in this Agreement shall create any contractual relationship between City and subcontractor nor shall it create any obligation on the part of the City to pay or to see to the payment of any monies due to any such subcontractor other than as otherwise is required by law.

21. Termination. This Agreement may be terminated immediately for cause or by either party without cause upon fifteen days' written notice of termination. Upon termination, Consultant shall be entitled to compensation for services performed up to the effective date of termination.

///

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the date first written above.

CITY OF CALEXICO:

CONSULTANT:

Victor M. Carrillo
City Manager

The Epler Company

APPROVED AS TO FORM:

ATTEST:

Jennifer M. Lyon
City Attorney

Lourdes Cordova
City Clerk

EXHIBIT A

SCOPE OF SERVICES

The Epler Company will perform an updated actuarial valuation as of June 30, 2009 to determine the amount of the actuarial liability for the City's current retiree health benefits program in accordance with GASB 45. The actuarial valuation will be performed using generally accepted actuarial procedures, updated census, and plan and rate information provided by the City. A data request is being provided separately. We will provide the City with a report setting forth all City liabilities as required under GASB 45 for its retiree health benefits program. The actuarial valuation results will also provide information regarding level-dollar and level-percentage-of-pay funding options. The valuation results will be split between active and retired employees. Our report will contain the following information:

- ♦ Executive Summary.
- ♦ Summary of Expected Cost: Projected annual pay-as-you-go expenditures (expected retiree health benefit payments by the City) for the next 20 years and representative years, thereafter.
- ♦ Summary of Plan Provisions: Terms of the plan provisions - eligibility, benefits period, etc., used in the valuation.
- ♦ Summary of Actuarial Assumptions: Key financial and demographic assumptions used in the valuation.
- ♦ Summary of Liabilities: Present value of expected retiree health benefit payments by the City.
- ♦ Determination of the expected impact on the City's financial statement under GASB 45, including the unfunded actuarial accrued liability and the estimated annual accrual accounting expense (annual required contribution). GASB 45 requires disclosure of the unfunded liability associated with retiree health benefits and adoption of accrual accounting versus pay-as-you-go for the expensing of retiree health benefits.
- ♦ Funding Analysis: Recommended funding amounts to pre-fund the obligation on level-dollar and level-percentage-of-pay basis.
- ♦ Sensitivity Analysis: Results using alternative discount rates to reflect funding strategies.
- ♦ Age and Service Distribution: Statistics of employee population included in the valuation.
- ♦ Actuarial Certification.

EXHIBIT B

SCHEDULE OF CHARGES

Our estimated fees, including non-travel related expenses, for the services outlined above are \$7,000 - \$7,500. Our fees are based on the projected number of hours spent by each consultant on the project, multiplied by a billable rate that varies according to the experience and credentials of the consultant. We make every effort to hold down the costs incurred in preparing the report, but not to the point of jeopardizing the successful conclusion of the assignment. We will bill for our services monthly and payment is due 30 days after receipt of a monthly invoice.

EXHIBIT C

CERTIFICATE OF EXEMPTION FROM WORKERS' COMPENSATION INSURANCE

I hereby certify that in the performance of the work for which this Agreement is entered into, I shall not employ any person in any manner so as to become subject to the Workers' Compensation Laws of the State of California.

Executed on this _____ day of _____, 2009, at _____,
California.

Consultant

City of Calexico

Actuarial Valuation

As of July 1, 2006

Prepared by:

The Epler Company
450 "B" Street, Suite 750
San Diego, CA 92101
(619) 239-0831

April 2007

April 12, 2007

PRIVATE

Ms. AJ Gaddis
Human Resource Manager/Risk Manager
City of Calexico
608 Heber Avenue
Calexico, CA 92231

Re: City of Calexico Retiree Health Actuarial Valuation

Dear Ms. Gaddis:

We are presenting our report of the actuarial valuation conducted on behalf of the City of Calexico (the "City") for its retiree health program, as of July 1, 2006.

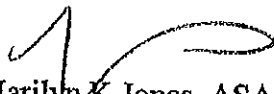
The purpose of the report is to measure the City's liability for retiree health benefits and to estimate the impact on the City's future accounting requirements under the Government Accounting Standard Board Statements No. 43 & 45 ("GASB 43 & 45") in regard to unfunded liabilities for retiree health benefits. The objective of GASB 45 is to improve the information in the financial reports of government entities regarding their post-employment benefits ("OPEB") including retiree health benefits. The objective of GASB 43 is to establish uniform reporting for OPEB Plans.

The Epler Company is an independently owned actuarial, benefits and compensation consulting firm located in San Diego, specializing in group health, retiree health valuations, and qualified pension plan valuations. We have set forth the results of our study in this report, and are available to answer any questions the City may have concerning the contents of the report.

We have enjoyed working on this assignment and are available to answer any questions.

Sincerely,

THE EPLER COMPANY


Marilyn K. Jones, ASA, MAAA, EA
Vice President and Actuary

MKJ:mj
Enclosure

As required by U.S. Treasury Regulations governing tax practice, IRS Circular 230 Tax Advice Disclaimer, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.



**City of Calexico
Actuarial Valuation as of July 1, 2006**

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Section I. Executive Summary

Background

The City of Calexico ("City") selected The Epler Company to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the City's liability for retiree health benefits and to estimate the City's accounting requirements for other postemployment benefits ("OPEB Benefits") under the recently issued Governmental Accounting Standards Board Statements No. 43 & 45 ("GASB 43" and "GASB 45"). GASB 45 is a new accounting standard that will require accrual accounting for the expensing of OPEB Benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most governmental entities and public sector organizations. OPEB Benefits generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. GASB 43 is also a new accounting standard that requires additional financial disclosure requirements for funded OPEB Plans. Depending on a City's total annual revenues, adoption of these accounting standards is required for financial statements effective as early as the 2007 fiscal year. Earlier adoption is permitted.

The City currently provides retiree health benefits to approximately 206 eligible active employees and 17 eligible retirees. Employees hired prior to May 18, 1993 are eligible for retiree medical and dental benefits for themselves and eligible dependents upon retirement from the City under PERS. The retiree is responsible for a monthly contribution equal to \$120. Employees hired on or after May 18, 1993 are eligible for retiree medical benefits for themselves only through attainment of age 65. Eligibility requires retirement from the City under PERS with at least 20 years of service. Retirees with less than 30 years of service at retirement are required to pay a monthly contribution. This contribution is equal to 5% times years of service less than 30 (not to exceed 50%) times the COBRA rate for retiree only PPO coverage. The retiree may also elect to cover and pay for eligible dependents based on the COBRA rate. Section V of the report details the plan provisions.

Results of the Retiree Health Valuation

We have determined that the amount of the actuarial liability for the City's retiree health plan, as of July 1, 2006, is \$24.1 million. This represents the present value of all benefits projected to be paid by the City for current and future retirees based on its current population. If

the City were to place this amount in a fund earning interest at the rate of 5% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits. This includes benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date. If the amount of the actuarial liability is apportioned into past service, current service and future service components, the past service component (actuarial accrued liability) is \$17.4 million and the current service component (normal cost) is \$610,000.

Funding and Expense

The City has not informed us of any funds eligible as plan assets under GASB 45. Under GASB 45, assets cannot be considered as employer contributions or plan assets unless they are segregated for exclusive use for retiree health benefit payments and secured from creditors of the City.

Currently the City expenses and funds for retiree health benefits on a pay-as-you-go basis. For the current period, the estimated pay-as-you-go expense and payment amount for the current retirees and expected future retirees for the current period is \$230,000 (net of required retiree contributions). Under GASB 45, the City will be required to adopt accrual accounting for the expensing of its retiree health benefits. The expense is generally accrued over the working career of employees. If the City were to adopt accrual accounting under GASB 45 for its current fiscal year, its expense would increase to \$1.7 million. This number is for illustration only and is not yet required on the City's income or other financial statements. The \$1.7 million is comprised of the present value of benefits accruing in the current year (normal cost) plus a 30-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability). Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health payments made during the period.

The expense amount is highly sensitive to the assumptions used in the valuation. Section VII of the report details the actuarial assumptions used in the valuation. A 1% increase in the healthcare trend rates used to determine the expense could increase the expense amount by 23%. Additionally, a 1% decrease in the discount (interest) rate could increase the expense amount by as much as 17%.

Many cities in California have begun to assess pre-funding options for their retiree health benefit obligations. Section IV of the report provides several funding alternatives for the City.

Section II. Financial Results

A. Valuation Results as of July 1, 2006

The table below presents the employer liabilities associated with the City's retiree health benefits determined in accordance with GASB 43 & 45. The actuarial liability is the present value of all benefits projected to be paid under the program. The actuarial accrued liability reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period.

	<u>Under 65</u> <u>Benefits</u>	<u>Over 65</u> <u>Benefits</u>	<u>Total</u>
1. Present Value of Projected Benefits (PVPB)			
Actives	\$7,556,166	\$12,558,586	\$20,114,752
Retirees	<u>731,688</u>	<u>3,280,135</u>	<u>4,011,823</u>
Total PVPB	\$8,287,854	\$15,838,721	\$24,126,575
 2. Actuarial Accrued Liability (AAL)			
Actives	\$4,375,038	\$8,974,445	\$13,349,483
Retirees	<u>731,688</u>	<u>3,280,135</u>	<u>4,011,823</u>
Total AAL	\$5,106,726	\$12,254,580	\$17,361,306
 3. Normal Cost	\$240,060	\$369,151	\$609,211
 No. of Active Employees			206
Average Age			40.1
Average Past Service			10.6
 No. of Retirees			17
Average Age			68.5

B. Development of UAAL at July 1, 2006

The table below presents the development of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets¹. Eligible assets under GASB 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits.

	<u>Under 65 Benefits</u>	<u>Over 65 Benefits</u>	<u>Total</u>
1. AAL	\$5,106,726	\$12,254,580	\$17,361,306
2. Actuarial Value of Assets ¹	<u>0</u>	<u>0</u>	<u>0</u>
3. UAAL	\$5,106,726	\$12,254,580	\$17,361,306

C. Amortization of UAAL at July 1, 2006

The amortization of the UAAL component of the annual required contribution (ARC) is being amortized over the maximum acceptable amortization period of 30 years on a level dollar basis.

	<u>Under 65 Benefits</u>	<u>Over 65 Benefits</u>	<u>Total</u>
1. UAAL	\$5,106,726	\$12,254,580	\$17,361,306
2. Amortization Period	30	30	30
3. Amortization of UAAL	\$316,381	\$759,217	\$1,075,598

D. Annual Required Contribution (ARC)

The table below presents an estimate of the annual required contribution (ARC) or accrual expense under GASB 45 for the current period.

	<u>Under 65 Benefits</u>	<u>Over 65 Benefits</u>	<u>Total</u>
1. Normal Cost	\$ 240,060	\$ 369,151	\$ 609,211
2. Amortization of UAAL	<u>316,381</u>	<u>759,217</u>	<u>1,075,598</u>
3. Annual Required Contribution (ARC)	\$ 556,441	\$1,128,368	\$1,684,809

¹ The City has not reported any eligible plan assets under GASB 43 & 45.

E. Sensitivity Analysis:

1. The impact of a 1% decrease in the discount (interest) rate on the City's total actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution (expense) is provided below:

	Percentage (%) Increase	Dollar (\$) <u>Increase</u>
- Actuarial Accrued Liability	23%	\$3,970,000
- Unfunded Actuarial Accrued Liability	23%	\$3,970,000
- Annual Required Contribution (Expense)	17%	\$280,000

2. The impact of a 1% increase in the discount (interest) rate on the City's total actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution (expense) is provided below:

	Percentage (%) Decrease	Dollar (\$) <u>Decrease</u>
- Actuarial Accrued Liability	(17%)	(\$3,000,000)
- Unfunded Actuarial Accrued Liability	(17%)	(\$3,000,000)
- Annual Required Contribution (Expense)	(13%)	(\$220,000)

3. The impact of a 1% increase in the healthcare trend rates on the City's total actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution (expense) is provided below:

	Percentage (%) Increase	Dollar (\$) <u>Increase</u>
- Actuarial Accrued Liability	21%	\$3,700,000
- Unfunded Actuarial Accrued Liability	21%	\$3,700,000
- Annual Required Contribution (Expense)	23%	\$390,000

Section III. Projected Cash Flows

The valuation process includes the projection of the expected benefits to be paid under the Plan. This expected cash flow takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and early retirement date. Once the employees reach the earliest retirement date, a certain percent are assumed to enter the retiree group each year. All remaining employees are assumed to have retired by age 58 at the latest. Employees already over age 58 as of the valuation date are assumed to retire immediately. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also, a certain number of retirees will leave the group each year due to expected deaths and this group will cease to be included in the cash flow from that point forward. Because this is a closed-group valuation, the number of retirees dying each year will eventually exceed the number of new retirees, and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following Table I.

Projected Employer Cash Flows (Net of Expected Retiree Contributions) – Representative Years

<u>Fiscal Year</u>	<u>Future Retirees</u>	<u>Retired Employees</u>	<u>City Total</u>
2006/07	\$36,042	\$191,104	\$227,146
2007/08	\$107,184	\$204,118	\$311,302
2008/09	\$170,057	\$220,419	\$390,476
2009/10	\$243,068	\$225,304	\$468,372
2010/11	\$308,796	\$232,671	\$541,467
2011/12	\$355,439	\$235,359	\$590,798
2012/13	\$422,907	\$246,166	\$669,073
2013/14	\$478,461	\$255,846	\$734,307
2014/15	\$526,980	\$261,652	\$788,632
2015/16	\$578,928	\$267,392	\$846,320
2016/17	\$613,604	\$271,310	\$884,914
2017/18	\$687,082	\$265,094	\$952,176
2018/19	\$800,567	\$266,128	\$1,066,695
2019/20	\$899,251	\$266,719	\$1,165,970
2020/21	\$1,025,168	\$267,297	\$1,292,465
2021/22	\$1,107,483	\$257,841	\$1,365,324
2022/23	\$1,324,993	\$244,522	\$1,569,515
2023/24	\$1,453,684	\$239,363	\$1,693,047
2024/25	\$1,564,336	\$235,692	\$1,800,028
2025/26	\$1,614,276	\$231,649	\$1,845,925
2026/27	\$1,633,491	\$227,900	\$1,861,391
2027/28	\$1,764,216	\$223,903	\$1,988,119
2028/29	\$1,807,108	\$219,837	\$2,026,945
2029/30	\$1,871,223	\$215,571	\$2,086,794
2030/31	\$1,996,843	\$210,866	\$2,207,709
2031/32	\$2,053,570	\$205,629	\$2,259,199
2032/33	\$2,113,677	\$199,560	\$2,313,237
2033/34	\$2,199,487	\$193,189	\$2,392,676
2034/35	\$2,277,788	\$186,520	\$2,464,308
2035/36	\$2,305,693	\$179,381	\$2,485,074
2036/37	\$2,286,129	\$171,993	\$2,458,122
2037/38	\$2,350,805	\$164,405	\$2,515,210
2038/39	\$2,422,557	\$156,081	\$2,578,638
2039/40	\$2,462,497	\$147,575	\$2,610,072
2040/41	\$2,424,311	\$138,963	\$2,563,274
2050/51	\$1,677,207	\$53,725	\$1,730,932
2060/61	\$714,371	\$5,473	\$719,844
2070/71	\$101,260	\$0	\$101,260
2080/81	\$693	\$0	\$693
2090/91	\$0	\$0	\$0
All Years	\$81,979,475	\$8,876,468	\$90,855,943

Section IV. Funding Analysis

There are multiple ways to approach the funding of a retiree health plan. The expense is one method, of many, that could be used to pre-fund benefits. The annual expense amount will fluctuate from year to year based on the asset performance and as the population matures.

Although not required, some cities in California have begun the assessment of pre-funding for their retiree benefit obligations. Presented below are best estimates to pre-fund the entire City obligation (the present value of projected benefits) for its current active employees and retirees using both level-dollar and level-percentage of pay methods.

	Level Dollar Equivalent	
	<u>20 Years</u>	<u>30 Years</u>
Fund Present Value of Projected Benefits (\$24.1 Million):	\$1.8 million	\$1.5 million

We have listed below some financial advantages that may be achieved pre-funding retiree health benefits. Of course, pre-funding will have to be weighed against alternative uses of the contribution amounts.

- The earlier contributions are made, the less City contributions in aggregate will have to be made to fulfill its obligations.
- Depending on the investment strategy for funds, a higher discount rate may be used for the actuarial valuation resulting in lower OPEB liabilities.
- Pre-funding can mitigate any resulting adverse impact on credit rating that could result from disclosure of OPEB liabilities.
- Pre-funding may provide additional benefit security to current and future retirees.

Section V. Benefit Plan Provisions

This study analyzes the postretirement health benefit plans provided by the City. The postretirement health plans and the City's obligation are described below.

For employees hired on or after May 18, 1993, the City established a policy to provide retiree health coverage (including medical and prescription drugs) for eligible retirees until age 65. The City contributes a portion of the cost based on a sliding scale from 50% to 100%. The City pays 50% for employees with at least 20 completed years of service plus 5% per additional completed year of service (up to 100% for 30 or more completed years of service). The City's contribution is for the retiree coverage only. Eligible retirees may elect coverage for their eligible dependents. The retiree is responsible for paying the cost for this dependent coverage based on the City's COBRA rate. Retiree health coverage (except COBRA continuation) ceases upon retiree reaching age 65 or the death of the retiree. Eligibility for retiree health benefits requires that an employee retire from the City under PERS with at least 20 years of service.

For employees hired prior to May 18, 1993, the City provides retiree health coverage (including medical, prescription drugs, dental and vision benefits) for eligible retirees for their lifetime. The City contributes the cost of coverage for the eligible retirees and coverage elected for eligible dependents after the retiree pays a monthly contribution equal to \$120 per month. Retiree health coverage (except COBRA continuation) ceases upon the death of the retiree. Eligibility for retiree health benefits requires that an employee retire from the City under PERS with at least 5 years of service.

Health Plan Costs

The City offers retiree health coverage to both its actives and retirees through a self-funded EPO Plan and a self-funded PPO Plan. The retirees are primarily in the PPO Plan. The following table shows the expected monthly cost for health coverage (including dental & vision benefits) for the period July 1, 2006 to June 30, 2007 for each of the plans and family coverage categories:

<u>Plan</u>	<u>Single</u>	<u>Family</u>
EPO Plan	\$324.14	\$762.44
PPO Plan	\$462.96	\$1,124.36

Note: Excludes brokerage & COBRA administration fees

Since the retiree contributions and cost for coverage are based on blended rates which includes both active and retiree costs, the City is providing a "rate subsidy" to the retirees. GASB 45 requires that when an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently. This requires valuing any "rate subsidy" as an additional financial obligation to the City.

Medical Plan Benefits

The City offers two different self-insured medical plans. A brief description of the covered medical benefits in each plan is provided below:

Plan Provision	EPO Plan	PPO Plan
Deductible:	\$0	\$0 PPO \$200/\$400 Non PPO
Lifetime Maximum:	\$1,000,000	\$1,000,000
Out-of-Pocket Limit:	\$1,000/Person \$2,000/Family	\$1,000/Person \$2,000/Family
Physician Visits:	Plan Pays 100% after \$15 Copay	Plan Pays 100% after \$15 Copay
Inpatient Coinsurance: (\$200 Copay if patient does not receive Pre-Certification)	Plan Pays 90%	Plan Pays 90% PPO/50% UCR Non PPO
Outpatient Coinsurance:	Plan Pays 90%	Plan Pays 90% PPO/50% UCR Non PPO
Skilled Nursing: 120 Days per calendar year	Plan Pays 90%	Plan Pays 90% PPO/50% UCR Non PPO
Mental Health & Substance Abuse: Inpatient – 15 Days Outpatient – 40 Visits \$30 Maximum for Substance Abuse	Plan Pays 90%	Plan Pays 90% PPO/50% UCR Non PPO
Prescription Drugs: 34-Days (90-Days Mail Order)	Generic: \$5 Copay Brand: \$20 Copay	Generic: \$5 Copay Brand: \$20 Copay
Mexico Benefits:	Deductible - \$0 Plan Pays 100% Of Contract Rate Physician Visits – \$10 Copay Rx Drugs - \$15 Copay	Deductible - \$0 PPO \$200/\$300 Non PPO Plan Pays 100% Of Contract Rate After Deductible Physician Visits – \$10 Copay Rx Drugs - \$15 Copay

Section VI. Valuation Data

Active and Retiree Census

The valuation was based on the census furnished to us by the City. The following tables display the age distribution for retirees, and the age/service distribution for active employees.

Age Distribution of Eligible Retired Participants

Age	Count
< 55	2
55-59	1
60-64	4
65-69	2
70-74	2
75-79	4
80-84	1
85+	1
Total:	17
Average Age:	68.5

Age/Service Distribution of Active Participants

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	15									15
25-29	22	10	1							33
30-34	14	11	3							28
35-39	7	7	6	9						29
40-44	8	1	3	10	4					26
45-49	6	6	1	7	6	4				30
50-54	0	3	3	4	1	5	2			18
55-59	2	1	4	4	2	2	6	0		21
60-64	1	1	0	1	1	0	0	0		4
65-69	0	1	1	0	0	0	0	0	0	2
70+	0	0	0	0	0	0	0	0	0	0
Total:	75	41	22	35	14	11	8	0	0	206
Average Age:			40.1							
Average Service:			10.6							

Section VII. Actuarial Assumptions and Methods

The liabilities set forth in this report are based on the actuarial assumptions described in this section.

Fiscal Year: July 1st to June 30th
Measurement Date: July 1, 2006
Discount Rate: 5.0% per annum
Return on Assets: 5.0% per annum
Salary Increases: 3.25% per annum, in aggregate
Pre-retirement Turnover: According to the Crocker-Sarason T-5 turnover table less mortality.
 Sample rates are as follows:

Age	Males	Females
20	7.9%	7.9%
25	7.7	7.7
30	7.2	7.2
35	6.3	6.3
40	5.2	5.2
45	4.0	4.0
50	2.6	2.6
55	0.9	0.9

Pre-retirement Mortality: 1983 Group Annuity Mortality, male and female tables set back four years to reflect recent mortality improvements. Sample deaths per 1,000 employees are as follows:

Age	Males	Females
25	0.4	0.2
30	0.5	0.3
35	0.6	0.4
40	0.9	0.5
45	1.4	0.7
50	2.5	1.1
55	4.3	1.8
60	6.6	2.8

Post-retirement Mortality: 1983 Group Annuity Mortality, male and female tables set back four years to reflect recent mortality improvements. Sample deaths per 1,000 employees are as follows:

Age	Males	Females
65	10.1	4.7
70	17.6	7.8
75	30.4	14.1
80	49.4	27.2
85	81.5	47.7
90	124.2	76.6

Retirement Age:

Future retirees are assumed to retire at age 58 or when reaching full eligibility if older.

Participation Rates:

95% of eligible active employees meeting eligibility requirements at retirement are assumed to elect retiree health coverage. For employees hired prior to May 18, 1993, 30% of those electing coverage are assumed to elect coverage for themselves only and 70% are assumed to elect coverage for themselves and their spouse. In addition, 10% of these employees are assumed to elect out of the PPO Plan for the EPO Plan. For employees hired on or after May 18, 1993, 50% of those electing coverage are assumed to elect coverage for themselves only and 50% are assumed to elect coverage for themselves and their spouse. In addition, 50% of these employees are assumed to elect out of the PPO Plan for the EPO Plan. Spouses for all future retirees are assumed to be same age as the retiree.

Claim Cost Development: The valuation was based on the claims and enrollment information furnished by the City. Representative average annual costs for a single participant are as follows:

Age	Medical & Rx Costs	Dental & Vision Costs
55	\$7,532	\$432
60	\$8,316	\$432
65	\$4,501	\$432
75	\$5,486	\$432
85	\$6,688	\$432

Medical & Rx Trend Rates:

Year	Trend
2007	10.0%
2008	9.5%
2009	9.0%
2010	8.5%
2011	8.0%
2012	7.5%
2013	7.0%
2014	6.5%
2015	6.0%
2016	5.5%
2017+	5.0%

Dental & Vision Trend Rates:

Year	Trend
2007+	5.0%

Medicare Eligibility: Assume all retirees and spouses over age 65 will be eligible for Medicare.



- Lifetime Maximum:** Assume lifetime maximum is adjusted in the future to reflect general increases in medical costs.
- Actuarial Cost Method:** The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year.
- All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the Employer were included in the valuation.
- Actuarial Value of Assets:** Any assets of the plan will be valued on a market value basis.

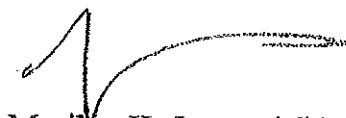
Section VIII. Actuarial Certification

The results set forth in this report are based on the actuarial valuation of the retiree health benefit plans of the City of Callexico (the "City"), as of July 1, 2006.

The valuation was performed in accordance with generally accepted actuarial principles and practices and in accordance with GASB Statements No. 43 & 45. We relied on census data for active employees and retirees provided to us by the City. We also made use of plan information, premium information, and enrollment information provided to us by the City.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of anticipated experience and actuarial cost of the retiree health benefit plans.

Certified by:



Marilyn K. Jones, ASA, EA, MAAA
Vice President and Actuary

Date: 4/12/07